

CRAWFORD AUSABLE SCHOOL DISTRICT

GRAYLING, MICHIGAN

JUNE 30, 2006

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

We have audited the accompanying financial statements of Crawford AuSable School District, Grayling, Michigan, as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Crawford AuSable School Districts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Crawford AuSable School District, Grayling, Michigan, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of Crawford AuSable School Districts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crawford AuSable School District, Grayling, Michigan's basic financial statements. The combining financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Crawford Ausable School District, a K-12 school district located in Grayling, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Crawford Ausable School Districts administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds which include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

B. Government-wide Financial Statements

This report includes government-wide statements as required by GASB Statement Number 34. The government-wide financial statements are designed to provide a broad overview of the District's financial position. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The District's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as all debt of the District.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30:

Assets	<u>2006</u>	<u>2005</u>
Current Assets	\$ 4,222,088	\$ 3,297,499
Non Current Assets		
Capital Assets	\$32,567,505	\$32,523,854
Less Accumulated Depreciation	<u>(10,561,231)</u>	<u>(9,698,704)</u>
Total Non Current Assets	<u>22,006,274</u>	<u>22,825,150</u>
Total Assets	<u><u>\$ 26,228,362</u></u>	<u><u>\$26,122,649</u></u>
Liabilities		
Current Liabilities	\$ 2,211,552	\$ 2,141,008
Non Current Liabilities	<u>20,294,103</u>	<u>20,373,712</u>
Total Liabilities	<u>22,505,655</u>	<u>22,514,720</u>
Net Assets		
Invested in Capital Assets Net		
of Related Debt	1,560,272	2,446,010
Restricted for Debt Service	212,438	58,600
Unrestricted	<u>1,949,997</u>	<u>1,103,319</u>
Total Net Assets	<u>3,722,707</u>	<u>3,607,929</u>
Total Liabilities and Net Assets	<u><u>\$ 26,228,362</u></u>	<u><u>\$26,122,649</u></u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$114,778. A few of the more significant factors affecting net assets during the year are discussed below:

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$862,527 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$43,651 of expenditures was capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

3. Payment of Long-Term Liabilities

During the year ending June 30, 2006, the District reduced its long-term liabilities by \$79,609.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

E. Results of Operations

For the years ended June 30, the results of operations, on a District-wide basis, were:

	2006		2005	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$ 6,781,604	35.91%	\$ 6,493,687	33.92%
Investment Earnings	110,712	0.59%	134,273	0.70%
State Sources	8,300,148	43.95%	8,671,072	45.29%
Gain on Sale of Assets	203,661	1.08%	0	0.00%
Other	780	0.00%	0	0.00%
Total General Revenues	15,396,905	81.53%	15,299,032	79.91%
Program Revenues				
Charges for Services	541,113	2.86%	569,155	2.97%
Operating Grants	2,947,463	15.61%	3,244,122	16.94%
Capital Grants	0	0.00%	34,257	0.18%
Total Program Revenues	3,488,576	18.47%	3,847,534	20.09%
Total Revenues	\$18,885,481	100.00%	\$ 19,146,566	100.00%
Expenses				
Instruction	\$ 9,407,488	50.12%	\$ 9,101,921	47.18%
Supporting Services	6,355,306	33.86%	6,476,699	33.58%
Food Service Activities	899,495	4.79%	876,915	4.55%
Athletic Activities	285,129	1.52%	288,784	1.50%
Community Services	11,859	0.06%	7,584	0.04%
Bookstore	25,094	0.13%	28,848	0.15%
Interest on Long-term Debt	844,566	4.50%	1,110,341	5.76%
Other Transactions	79,239	0.42%	197,389	1.02%
Unallocated Depreciation	862,527	4.60%	1,199,436	6.22%
Total Expenses	18,770,703	100.00%	19,287,917	100.00%
Change in Net Assets	\$ 114,778		\$ (141,351)	

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$4,908,136 in non-homestead property taxes.

The following table summarizes the property tax levies for operations and debt for the past three years:

<u>Fiscal Year</u>	<u>Tax Levy</u>
2005-2006	\$ 6,781,604
2004-2005	6,493,687
2003-2004	6,013,968

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005-2006 fiscal year, the District received \$6,875 per student FTE.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past three fiscal years:

<u>Fiscal Year</u>	<u>Blended Student FTE</u>
2005-2006	1,988
2004-2005	2,000
2003-2004	2,030

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state, and other grants accounted for \$2,947,463.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$15,724,516</u>	<u>\$15,821,520</u>	<u>\$15,974,045</u>
Total Expenditures	<u>\$16,054,727</u>	<u>\$16,077,960</u>	<u>\$15,839,821</u>

The total revenues variance of \$152,525 is 0.96% of total budgeted revenues and the total expenditures variance was \$238,139, which is 1.48% of total budgeted expenditures.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2006, the District has \$32,567,505 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$43,651 over the prior fiscal year. Depreciation expense for the year amounted to \$862,527, bringing the accumulated depreciation to \$10,561,231 as of June 30, 2006.

2. Long-Term Debt

At June 30, 2006, the District had \$20,722,900 in bonded debt outstanding.

Also, the District had \$1,476,620 of accrued expenses at June 30, 2006, which was made up of early retirement incentive payments and accumulated sick pay liability. These long-term accrued

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

expenses were increased by \$39,620 during the year due to changes in estimated sick pay liability and early retirement incentives.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

With the current economic condition in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006-2007 fiscal year. This along with continued declining enrollment will pose a challenge to the District to maintain structural balance while continuing with its educational programming.

The district continues to face significant increases in rates for health insurance. Additionally, the retirement rate is expected to increase for 2006-2007.

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students becomes very important. This increase in assessments of a student will all need to be funded by the district.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Crawford Ausable School District, 1135 N Old 27, Grayling, Michigan 49738.

CRAWFORD AUSABLE SCHOOL DISTRICT

GRAYLING, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 2,222,157
Taxes Receivable	13,957
Accounts Receivable	171,338
Due from Other Governments	1,720,338
Inventories	83,667
Investments	10,631
Total Current Assets	<u>4,222,088</u>

NON CURRENT ASSETS

Capital Assets	32,567,505
Less Accumulated Depreciation	<u>(10,561,231)</u>
Total Non Current Assets	<u>22,006,274</u>
TOTAL ASSETS	<u>\$ 26,228,362</u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 26,402
Accrued Expenses	344,078
Accrued Interest Payable	132,245
Salaries Payable	58,503
Deferred Revenue	21,805
Current Portion of Non Current Liabilities	<u>1,628,519</u>
Total Current Liabilities	<u>2,211,552</u>

NON CURRENT LIABILITIES

Bonds Payable (Net of Deferred Charges)	20,446,002
Early Retirement Incentives	1,358,625
Compensated Absences	117,995
Less Current Portion of Non Current Liabilities	<u>(1,628,519)</u>
Total Non Current Liabilities	<u>20,294,103</u>
Total Liabilities	<u>22,505,655</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	1,560,272
Restricted for Debt Service	212,438
Unrestricted	<u>1,949,997</u>
Total Net Assets	<u>3,722,707</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,228,362</u>

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	NET (EXPENSE)
					REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 9,407,488	\$ 27,557	\$ 2,274,196	\$ 0	\$ (7,105,735)
Supporting Services	6,355,306	31,633	173,429	0	(6,150,244)
Food Service Activities	899,495	355,680	499,838	0	(43,977)
Athletic Activities	285,129	100,444	0	0	(184,685)
Community Services	11,859	0	0	0	(11,859)
Book Store	25,094	25,799	0	0	705
Interest on Long Term Debt	844,566	0	0	0	(844,566)
Other Transactions	79,239	0	0	0	(79,239)
Unallocated Depreciation	862,527	0	0	0	(862,527)
Total Governmental Activities	<u>\$18,770,703</u>	<u>\$ 541,113</u>	<u>\$ 2,947,463</u>	<u>\$ 0</u>	<u>(15,282,127)</u>
<u>GENERAL REVENUES</u>					
Property Taxes -Levied for General Purposes					4,908,136
Property Taxes -Levied for Debt Service					1,873,468
Investment Earnings					110,712
State Sources					8,300,148
Gain (Loss) on Sale of Fixed Assets					780
Other					203,661
Total General Revenues					<u>15,396,905</u>
Change in Net Assets					114,778
<u>NET ASSETS</u> - Beginning of Year					<u>3,607,929</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 3,722,707</u>

The notes to the financial statements are an integral part of this statement

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

	2006		
	GENERAL FUND	FOOD SERVICE FUND	BUILDING AND SITE FUND
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 875,865	\$ 19,143	\$ 979,251
Taxes Receivable	10,718	0	0
Accounts Receivable	170,332	1,006	0
Due from Other Governments	1,717,900	2,438	0
Due from Other Funds	14,856	0	0
Inventories	70,867	12,800	0
Investments	10,631	0	0
	<hr/>		
TOTAL ASSETS	\$2,871,169	\$ 35,387	\$ 979,251
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 25,237	\$ 1,165	\$ 0
Accrued Expenses	344,078	0	0
Salaries Payable	56,409	2,094	0
Due to Other Funds	0	44,594	0
Deferred Revenue	17,621	4,184	0
	<hr/>		
Total Liabilities	443,345	52,037	0
<hr/>			
<u>FUND BALANCE</u>			
Reserved for Inventory	70,867	12,800	0
Reserved for Debt Service	0	0	0
Unreserved, Undesignated, Reported in:			
General Fund	2,356,957	0	0
Unreserved, Designated, Reported in:			
Special Revenue Funds	0	(29,450)	0
Capital Projects Fund	0	0	979,251
	<hr/>		
Total Fund Balances (Deficit)	2,427,824	(16,650)	979,251
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$2,871,169	\$ 35,387	\$ 979,251

The notes to the financial statements are an integral part of this statement.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 347,898	\$ 2,222,157
3,239	13,957
0	171,338
0	1,720,338
70,479	85,335
0	83,667
0	10,631
<u>\$ 421,616</u>	<u>\$ 4,307,423</u>

\$ 0	\$ 26,402
0	344,078
0	58,503
40,741	85,335
0	21,805
<u>40,741</u>	<u>536,123</u>

0	83,667
344,683	344,683
	2,356,957
36,192	6,742
0	979,251
<u>380,875</u>	<u>3,771,300</u>
<u>\$ 421,616</u>	<u>\$ 4,307,423</u>

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances		\$ 3,771,300
Amounts reported for governmental activities in the statement of net assets different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	\$32,567,505	
Accumulated depreciation is	<u>(10,561,231)</u>	22,006,274
Long term liabilities are not due and payable in the current period and are reported in the funds		
Bonds Payable		(20,722,900)
Deferred Charges Net of Amortization		276,898
Early Retirement Incentives		(1,358,625)
Compensated Absences		(117,995)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		<u>(132,245)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 3,722,707</u></u>

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL FUND	FOOD SERVICE FUND	2006 BUILDING AND SITE FUND
<u>REVENUES</u>			
Local Sources	\$ 5,211,845	\$ 355,680	\$ 1,432
Intermediate Sources	46,162	0	0
State Sources	9,551,475	58,556	0
Federal Sources	1,164,563	441,282	0
Total Revenues	15,974,045	855,518	1,432
<u>EXPENDITURES</u>			
Instruction	9,352,424	0	0
Supporting Services	6,414,401	0	0
Community Services	11,859	0	0
Food Service Activities	0	899,495	0
Athletic Activities	0	0	0
Book Store	0	0	0
Debt Service			
Principal	0	0	0
Interest	0	0	0
Other Transactions	61,137	0	17,181
Total Expenditures	15,839,821	899,495	17,181
Excess (Deficiency) of Revenues Over (Under) Expenditures	134,224	(43,977)	(15,749)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Sale of Bonds	0	0	995,000
Transfers In	0	64,996	0
Transfers Out	(264,141)	0	0
Sale of Fixed Assets	780	0	0
Total Other Financing Sources (Uses)	(263,361)	64,996	995,000
Net Change in Fund Balance	(129,137)	21,019	979,251
<u>FUND BALANCE</u> - Beginning of Year (Deficit)	2,556,961	(37,669)	0
<u>FUND BALANCE</u> - End of Year (Deficit)	\$ 2,427,824	\$ (16,650)	\$ 979,251

The notes to the financial statements are an integral part of this statement.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 2,039,647	\$ 7,608,604
0	46,162
14,059	9,624,090
0	1,605,845
2,053,706	18,884,701
0	9,352,424
0	6,414,401
0	11,859
0	899,495
285,129	285,129
25,094	25,094
955,000	955,000
787,459	787,459
921	79,239
2,053,603	18,810,100
103	74,601
0	995,000
199,145	264,141
0	(264,141)
0	780
199,145	995,780
199,248	1,070,381
181,627	2,700,919
\$ 380,875	\$ 3,771,300

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$1,070,381
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(862,527)
Capital Outlay	43,651

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	102,000
Accrued Interest Payable - End of Year	(132,245)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The net changes in long term liabilities are:

Issuance of Debt	(995,000)
Repayment of Bond Principal	955,000
Amortization of Deferred Charges	(26,862)

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Early Retirement Incentive - Beginning of the Year	1,304,000
Early Retirement Incentive - End of the Year	(1,358,625)
Accumulated Sick Pay - Beginning of Year	133,000
Accumulated Sick Pay - End of Year	(117,995)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 114,778</u>
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The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2006

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	<u>\$ 5,004</u>	<u>\$ 238,622</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Groups and Organizations	\$ 0	\$ 238,622
<u>NET ASSETS</u>		
Reserved for Trust Activities	<u>5,004</u>	<u>0</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,004</u>	 <u>\$ 238,622</u>

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2006

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 143
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>250</u>
CHANGE IN NET ASSETS	(107)
<u>NET ASSETS</u> - Beginning of Year	<u>5,111</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 5,004</u></u>

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Crawford AuSable School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

Crawford AuSable School District (the "School District") is located in Crawford, Kalkaska and Otsego Counties with its administrative offices located at 1135 N. Old 27, Grayling, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,988 students in elementary, middle, high school, and special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *food service fund* accounts for revenue sources that are legally restricted to food service activities.

The *capital projects fund* is used to account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its athletic activities and bookstore/concessions in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The School District maintained debt service funds during the year for bond issues at 2001, 2003, 2005 and Durant Bonds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for contributions earmarked for scholarships available to qualifying students of the District.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Crawford AuSable Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).
- (e) Certificates of deposit or share certificates of state or federal credit unions organized and authorized to operate in this state.
- (f) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- (g) United States government or federal agency obligation repurchase agreements.
- (h) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (i) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- (j) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a School District.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two (2) years of the date of purchase.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1, and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	17.8867
2001 Debt Service Fund - Homestead and non-homestead	0.928
2003 Debt Service Fund - Homestead and non-homestead	2.300
2005 Debt Service Fund - Homestead and non-homestead	0.972

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventories in the general and special revenue funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20-55 years
Furniture and other equipment	5-20 years
Buses and vehicles	5-10 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

It is the District's policy to permit employees to accumulated earned but unused sick pay and comp time benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortization of premiums, discounts and bond issuance costs, prospectively for all bonds issued after July 1, 2003.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

6. Budgeted amounts are as originally adopted on June 20, 2005, or as amended by the School Board of Education on June 19, 2006.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

School Service Fund - Food Service Fund expenditures of \$899,495 exceeded appropriations of \$894,819 by \$4,676.

School Service Fund – Bookstore Fund expenditures of \$25,094 exceeded appropriations of \$24,252 by \$842.

School Service Fund – Athletics Fund expenditures of \$285,129 exceeded appropriations of \$263,700 by \$21,429.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

The District's deposits and investments are all on deposit with banks within the District and Michigan School District Liquid Asset Fund Plus.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$2,180,481 of the government's bank balance of \$2,889,418 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, all of the District's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds \$ 10,631

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$2,222,157	\$ 0	\$243,626	\$2,465,783
Investments	0	10,631	0	10,631
	<u>\$2,222,157</u>	<u>\$ 10,631</u>	<u>\$243,626</u>	<u>\$2,476,414</u>

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

B. Receivables

Receivables as of year end for the government's individual major fund and nonmajor, and fiduciary funds are as follows:

	General	Food Service	Nonmajor and Other Funds	Total
Receivables				
Taxes	\$ 10,718	\$ 0	\$ 3,239	\$ 13,957
Accounts	170,332	1,006	0	171,338
Other Governmental Units	1,717,900	2,438	0	1,720,338
Total Receivables	<u>\$1,898,950</u>	<u>\$ 3,444</u>	<u>\$ 3,239</u>	<u>\$1,905,633</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Insurance Reimbursement	\$ 0	\$ 17,621
Balance on Student Debit Cards	0	4,184
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 0</u>	<u>\$ 21,805</u>

C. Capital Assets

A summary of changes in the District's capital assets follows:

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Buildings and additions	\$28,417,843	\$ 0	\$ 0	\$28,417,843
Machinery and equipment	2,664,846	43,651	0	2,708,497
Transportation equipment	1,441,165	0	0	1,441,165
Subtotal	32,523,854	43,651	0	32,567,505
Less Accumulated depreciation for:				
Buildings and additions	(6,681,584)	(625,549)	0	(7,307,133)
Machinery and equipment	(1,987,359)	(151,981)	0	(2,139,340)
Transportation equipment	(1,029,761)	(84,997)	0	(1,114,758)
Accumulated depreciation	(9,698,704)	(862,527)	0	(10,561,231)
Net capital assets	\$22,825,150	\$(818,876)	\$ 0	\$22,006,274

Depreciation for the fiscal year ended June 30, 2006 amounted to \$862,527. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the Long-Term Debt transactions for the School District for the year ended June 30, 2006:

	GENERAL OBLIGATION SERIAL BONDS	DURANT SCHOOL IMPROVEMENT BONDS	ACCUMULATED SICK PAY AND RETIREMENT INCENTIVE	TOTAL
Long-Term Debt at July 1, 2005	\$ 20,555,000	\$ 127,900	\$ 1,437,000	\$ 22,119,900
Increase in Debt	995,000	0	54,625	1,049,625
Reductions in Debt	(955,000)	0	(15,005)	(970,005)
LONG-TERM DEBT AT JUNE 30, 2006	\$ 20,595,000	\$ 127,900	\$ 1,476,620	\$ 22,199,520
Due Within One Year	\$ 1,205,000	\$ 54,371	\$ 369,148	\$ 1,628,519

At June 30, 2006, the School District's long-term debt consisted of the following:

CRAWFORD AUSABLE SCHOOL DISTRICT
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

1998 School Improvement Bond (Durant); due in annual installments of \$9,690 to \$46,306 through May 15, 2013; average interest rate of 4.07%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	\$ 127,900
2001 School Building and Site Bonds; due in annual installments of \$200,000 to \$750,000 through May 1, 2012; average interest rate of 4.83%. At the School District's option, bonds can be redeemed on or after May 1, 2012, prior to maturity.	3,550,000
2003 Refunding Bonds; due in annual installments of \$655,000 to \$755,000 through May 1, 2015; average interest rate of 3.14%. At the School District's option, bonds can be redeemed on or after May 1, 2013, prior to maturity.	6,370,000
2005 Refunding Bonds; due in annual installments of \$25,000 to \$1,145,000 beginning May 1, 2009 through May 1, 2021; average interest rate of 4%. At the School District's option, bonds can be redeemed on or after May 1, 2015, prior to maturity.	9,680,000
2006 School Buildings and Site Bonds; due in annual installments of \$60,000 to \$220,000 through May 1, 2016; plus interest at 3.7% to 4.2%. At the School District's option, bonds can be redeemed on or after May 1, 2016, prior to maturity.	<u>995,000</u>
Total general obligation bonds payable	20,722,900
Accumulated leave liability	117,995
Early retirement incentives	<u>1,358,625</u>
Total long-term debt	<u><u>\$22,199,520</u></u>

The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest payments of \$6,704,541 are as follows:

CRAWFORD AUSABLE SCHOOL DISTRICT
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

<u>Year Ending June 30,</u>	<u>Bonds</u>		<u>Retirement Incentive</u>		<u>Amount Payable</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$ 1,259,371	\$ 837,503	\$ 251,153	\$ 0	\$ 2,348,027
2008	1,311,066	797,808	268,796	0	2,377,670
2009	1,381,517	754,531	207,694	0	2,343,742
2010	1,461,985	705,601	190,977	0	2,358,563
2011	1,532,473	649,406	138,812	0	2,320,691
2012-2016	8,116,488	2,239,416	301,193	0	10,657,097
2017-2021	5,660,000	720,276	0	0	6,380,276
	<u>\$20,722,900</u>	<u>\$6,704,541</u>	<u>\$1,358,625</u>	<u>\$ 0</u>	<u>28,786,066</u>
Accumulated Sick Pay					<u>117,995</u>
					<u>\$28,904,061</u>

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the employees will use the sick leave. The General Fund will generally liquidate accumulated sick pay.

E. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2006, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 14,856	\$ 0
School Service Fund - Food Service	0	44,594
Debt Service Fund - 2001 Debt	70,379	0
Debt Service Fund - 2003 Debt	0	22,570
Debt Service Fund - 2005 Debt	0	18,171
Bookstore Fund	100	0
	<u>\$ 85,335</u>	<u>\$ 85,335</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2006, are expected to be repaid within one year.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Interfund transfers as shown in the individual fund financial statements at June 30, 2006, were:

	<u>TRANSFERS</u> <u>IN</u>	<u>TRANSFERS</u> <u>OUT</u>
General Fund	\$ 0	\$ 264,141
School Service Fund - Athletic Activities Fund	196,986	0
School Service Fund - Food Service Fund	64,996	0
Bookstore Fund	2,159	0
	<u>\$ 264,141</u>	<u>\$ 264,141</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Leases

The rental expense for the year ended June 30, 2006, totaled \$60,805 respectively.

The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	<u>PAYABLES</u>
2007	\$ 61,394
2008	61,394
2009	60,008
2010	<u>22,435</u>
	<u>\$ 205,231</u>

G. Designated and Reserved Fund Balance

The School has designated fund balances as follows:

1. Food Service and Athletic Activities

The School's policy is to show fund balance of the Food Service Fund and Athletic Activities Fund as designated for those purposes.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

2. Debt Service

The entire fund balances of the Debt Service Funds are reserved for debt service.

3. Inventory

The General Fund Balance and Food Service Fund Balance are reserved for inventories to emphasize that these amounts are not appropriable for other purposes.

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% of payroll through September 2005, and 16.34% effective October 2005. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

MPERS for the year ended June 30, 2006, 2005 and 2004 were \$1,467,740, \$1,341,710 and \$1,103,839 respectively, and were equal to the required contribution for those years.

Other Post Employment Benefits Funding Policy

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 4,813,320	\$ 5,134,213	\$ 5,211,845
Intermediate Sources	41,137	42,605	46,162
State Sources	9,670,301	9,476,489	9,551,475
Federal Sources	1,199,758	1,168,213	1,164,563
Total Revenues	<u>15,724,516</u>	<u>15,821,520</u>	<u>15,974,045</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Instruction	7,283,159	7,269,366	7,282,964
Added Needs	1,902,783	1,976,014	1,986,093
Adult and Continuing Education	83,534	83,976	83,367
Supporting Services			
Pupil	1,171,982	1,131,731	1,123,645
Instructional Staff	609,659	576,671	539,774
General Administration	290,290	283,801	270,035
School Administration	989,177	995,073	971,156
Business	448,029	446,320	453,546
Operating and Maintenance	1,791,669	1,796,040	1,744,725
Pupil Transportation	910,759	948,524	851,511
Other	504,086	483,429	460,009
Community Services	4,600	4,600	11,859
Capital Outlay	0	82,415	0
Other Transactions	65,000	0	61,137
Total Expenditures	<u>16,054,727</u>	<u>16,077,960</u>	<u>15,839,821</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(330,211)</u>	<u>(256,440)</u>	<u>134,224</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(185,700)	(218,369)	(264,141)
Sale of Fixed Assets	0	720	780
Total Other Financing Sources (Uses)	<u>(185,700)</u>	<u>(217,649)</u>	<u>(263,361)</u>
Net Change in Fund Balance	(515,911)	(474,089)	(129,137)
<u>FUND BALANCE - Beginning of Year</u>	<u>2,453,709</u>	<u>2,556,961</u>	<u>2,556,961</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 1,937,798</u>	<u>\$ 2,082,872</u>	<u>\$ 2,427,824</u>

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT RETIREMENT FUNDS</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>ATHLETIC FUND</u>	<u>BOOKSTORE FUND</u>	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>2003 REFUNDING BONDS</u>	<u>2005 REFUNDING BONDS</u>	
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 36,092	\$ 0	\$ 75,346	\$ 154,814	\$ 81,646	\$ 347,898
Taxes Receivable	0	0	550	2,110	579	3,239
Due from Other Funds	0	100	70,379	0	0	70,479
 TOTAL ASSETS	 \$ 36,092	 \$ 100	 \$ 146,275	 \$ 156,924	 \$ 82,225	 \$ 421,616
 <u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 22,570	\$ 18,171	\$ 40,741
 <u>FUND BALANCE</u>						
Reserved for Debt Service	0	0	146,275	134,354	64,054	344,683
Unreserved, Designated for, reported in: Special Revenue Funds	36,092	100	0	0	0	36,192
 Total Fund Balances	 36,092	 100	 146,275	 134,354	 64,054	 380,875
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 36,092	 \$ 100	 \$ 146,275	 \$ 156,924	 \$ 82,225	 \$ 421,616

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT RETIREMENT FUNDS</u>				<u>TOTAL</u>
	<u>ATHLETIC</u>	<u>BOOKSTORE</u>	<u>2001 SCHOOL</u>	<u>2003</u>	<u>2005</u>	<u>1998</u>	<u>NONMAJOR</u>
	<u>FUND</u>	<u>FUND</u>	<u>BUILDING AND</u>	<u>REFUNDING</u>	<u>REFUNDING</u>	<u>DURANT</u>	<u>GOVERNMENTAL</u>
			<u>SITE BONDS</u>	<u>SITE BONDS</u>	<u>BONDS</u>	<u>BONDS</u>	<u>FUNDS</u>
<u>REVENUES</u>							
Local Sources							
Property Taxes	\$ 0	\$ 0	\$ 416,016	\$ 1,025,429	\$ 438,813	\$ 0	\$ 1,880,258
Earnings on Investments and Deposits	0	0	7,696	19,341	6,109	0	33,146
Admissions	100,444	0	0	0	0	0	100,444
Other Local Sources	0	25,799	0	0	0	0	25,799
State Sources							
Durant Payment	0	0	0	0	0	14,059	14,059
Total Revenues	100,444	25,799	423,712	1,044,770	444,922	14,059	2,053,706
<u>EXPENDITURES</u>							
Athletic Activities	285,129	0	0	0	0		285,129
Book Store Activities	0	25,094	0	0	0		25,094
Capital Outlay	0	0	0	0	0		0
Debt Service	0		0				
Principal	0	0	200,000	755,000	0		955,000
Interest	0	0	163,188	229,923	380,289	14,059	787,459
Other Expenses	0	0	0	342	579		921
Total Expenditures	285,129	25,094	363,188	985,265	380,868	14,059	2,053,603
Excess (Deficiency) of Revenues Over (Under) Expenditures	(184,685)	705	60,524	59,505	64,054	0	103
<u>OTHER FINANCING SOURCES (USES)</u>							
Proceeds from Sale of Bonds	0	0	0	0	0	0	0
Transfers In (Out)	196,986	2,159	0	0	0		199,145
Total Other Financing Sources (Uses)	196,986	2,159	0	0	0	0	199,145
Net Change in Fund Balance	12,301	2,864	60,524	59,505	64,054	0	199,248
<u>FUND BALANCE</u> - Beginning of Year (Deficit)	23,791	(2,764)	85,751	74,849	0	0	181,627
<u>FUND BALANCE</u> - End of Year	\$ 36,092	\$ 100	\$ 146,275	\$ 134,354	\$ 64,054	\$ 0	\$ 380,875

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2006

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

As a result of our audit of the financial statements of Crawford AuSable School District for the year ended June 30, 2006, we would like to comment on the following items relative to the management and accounting records and procedures of the School District.

Budgeting

The Michigan Department of Education is working towards various policy adjustments in regards to budget violations and are considering retroactive implementation of these policies to the 2004-2005 and the 2005-2006 fiscal years.

Specifically, the Department will be focusing on a couple of significant areas as it relates to the General Fund.

1. Total Expenditure violations that exceed 1% of the Total Expenditures budget.
2. Total Other Financing Uses violations that exceed 1% of the Total Other Financing Uses budget.

A budget violation would include incurring expenditures in excess of the approved appropriation, ending the fiscal year with a deficit fund balance or adopting a budget that would result in a deficit fund balance.

The Department is also considering that a violation for the 2005-2006 fiscal year may also include a situation where the District did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved.

These proposed policy adjustments will place a renewed importance on the need to monitor the budget process very closely.

We recommend the District review the 2006-2007 budget to make sure that actual revenues will be greater than budgeted revenues, that actual expenditures by function will not be greater than appropriated and that a negative fund balance is not budgeted.

In addition, the conference agreement relative to the 2006-2007 state school aid act reached July 12, 2006 includes a provision that will require the District to begin posting the annual operating budget as well subsequent budget amendments on the website for the District. It is expected that this requirement will become effective October 1, 2006. As a result, the District should begin preparing to meet this new requirement.

For the year ended June 30, 2006, the Food Service, Athletic and Bookstore Funds expenditures exceeded appropriations. PA-621 requires budgets be amended before expenditures exceed appropriations.

Accounting for Mini-Grants

The District applies for and receives various mini-grants during the year. Currently, those grants are accounted for in the Internal Accounts of the District rather than the General Fund. We recommend consideration be given to accounting for mini-grants in the General Fund to insure all grant requirements have been met and a full accounting is performed on the grants during the term of the grant. At a minimum, a dollar amount threshold should be formally established to determine what level mini-grants must be accounted for in the General Fund.

Internal Account Activities

During our test of random transactions in the Internal Accounts, we noted that bank reconciliations are being signed, which we believe is a good internal control. However, the District has written policies related to approval of payments from internal accounts that were not followed consistently for the transactions we tested. We recommend that the District should attempt to follow its written procedures related to Internal Activities because we believe those procedures to be important to the internal control structure.

Financial Information Database (FID)

The State of Michigan's Financial Information Database (FID) System has replaced the Form B report by requiring District's to submit their financial information electronically to the State using the State's new Chart of Accounts. The school is responsible for ensuring its' compliance with the State's new Chart of Accounts. The State has indicated it will accept FID transmittals using the State Chart through Change Notice Number 12 or 13 (School's choice). Additionally, the District must set up its Durant Debt Retirement Fund for the FID now, since payments have resumed.

Fixed Assets

During our audit, we tested the Districts Fixed Asset records which are being maintained by a company for the District. Those balances did not agree with the prior year audit. Apparently changes were required after the audit that were never followed through on. We recommend that the District work with the company maintaining its Fixed Asset records to update those records to agree with the current audit, and continue to maintain those records throughout the year, as those records are a part of the official financial records of the District even though they are maintained off site.

Deficit Fund Balance

As noted in your prior year audit, the Food Service Fund had a deficit fund balance. The current amount is \$16,650. While transfers were made during the year, at June 30, 2006 a deficit remained. The State of Michigan requires the District to submit a Deficit Reduction Plan as soon as possible. The plan should outline how the District plans to correct the situation. The District should then implement a policy of monitoring fund balance in all funds on a monthly basis to prevent this from occurring in the future.

Headlee Millage Rollback

The District's operating millage is subject to the Headlee Rollback provision which limits the levy from 18.0000 mills to 17.8867 mills. This results in a loss of revenue to the district for the past fiscal year of more than \$30,000. The District may want to consider having the voters restore the District's ability to levy the full 18 mills for school operations.

Food Service Fund Federal Compliance

We believe that, overall, the Food Service Fund is being accounted for well, however, since the Fund receives a large amount of Federal Aid through its Free and Reduces Lunch Program, the District must make sure that all minor administrative details are completed each year. This should be done on a timely basis and maintained consistent with Federal guidelines.

Food Service Fund Write Off of Accounts Receivable

According to the Food Service Director, no formal written policy exists to describe the circumstances by which amounts owed for student lunches are written off the books, and who is authorized to initiate this write off process. Currently the Food Service Director is making this determination on a case by case basis. We recommend a written policy be developed to address this situation.

Bond Audit Compliance - "120 Day Audit"

Section 1351 a (2) of Act 451 of the Public Acts of 1976, as amended, requires all school districts that issue bonds under that section to have an independent audit covering the use of the bond proceeds. That audit must be conducted within 120 days after "substantial completion" of all projects financed by the proceeds of the bonds. We will conduct the audit as a separate engagement and issue a separate report when the District informs us the projects are substantially complete to comply with this requirement.

Tax Roll/State Aid Reconciliation

We have suggested a different method of accounting for tax roll and state aid adjustments during the year. The business office has embraced this change, as it will help smooth out unexpected budget changes due to the ever changing nature of property taxable values and homestead adjustments since the passage of Proposal A in 1994. During the transition, these types of changes will still have to be budgeted for, but the frequency of change will lessen with each passing year as long as the accounting is kept up to date.

Bank Account Signature Cards

As a part of our audit we requested from the various banks the District uses copies of current signature cards indicating who is authorized to initiate transactions at those institutions. We found some former employees had not been removed from the signature cards. However, the District has already taken steps to correct this situation.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the District, and to the administration and staff for their assistance in helping us complete this audit assignment. If you have any questions relative to the preceding comments and recommendations or any other area of concern, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.